

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR APPROVAL)	
OF AN AMENDED COMPLIANCE PLAN FOR)	
PURPOSES OF RECOVERING THE COSTS OF)	
NEW AND ADDITIONAL POLLUTION)	CASE NO. 2000-439
CONTROL FACILITIES AND TO AMEND ITS)	
ENVIRONMENTAL COST RECOVERY)	
SURCHARGE TARIFF)	

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

January 2001

000806

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TABLE OF CONTENTS

I.	Qualifications and Summary.....	1
II.	Actual and Just and Reasonable Return on ECR Rate Base.....	6
III.	Other Costs.....	23
IV.	Allocation to Kentucky Retail Jurisdiction.....	29

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DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

1 **Q. Please state your name and business address.**

2

3 **A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.**
4 **("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia**
5 **30075.**

6

7 **Q. What is your occupation and by whom are you employed?**

8

9 **A. I am a utility rate and planning consultant holding the position of Vice President and**
10 **Principal with the firm of Kennedy and Associates.**

J. Kennedy and Associates, Inc.

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1 **Q. Please describe your education and professional experience.**

2
3 **A.** I earned a Bachelor of Business Administration in Accounting degree from the
4 University of Toledo. I also earned a Master of Business Administration degree from
5 the University of Toledo. I am a Certified Public Accountant, with a practice license,
6 and a Certified Management Accountant.

7
8 I have been an active participant in the utility industry for nearly twenty-five years, both
9 as an employee and as a consultant. Since 1986, I have been a consultant with Kennedy
10 and Associates, providing services to state government agencies and large consumers of
11 utility services in the ratemaking, financial, tax, accounting, and management areas.
12 From 1983 to 1986, I was a consultant with Energy Management Associates, providing
13 services to investor and consumer owned utility companies. From 1976 to 1983, I was
14 employed by The Toledo Edison Company in a series of positions encompassing
15 accounting, tax, financial, and planning functions.

16
17 I have appeared as an expert witness on accounting, finance, ratemaking, and planning
18 issues before regulatory commissions and courts at the federal and state levels on more
19 than one hundred occasions. I have developed and presented papers at various industry
20 conferences on ratemaking, accounting, and tax issues. I have testified before the
21 Kentucky Public Service Commission on numerous occasions, including the recent

1 Louisville Gas and Electric (“LG&E” or the “Company”) and Kentucky Utilities
2 Company (“KU” or the “Company”) base ratemaking and alternative rate plan
3 proceedings, as well as the proceeding involving the merger of the two Companies. My
4 qualifications and regulatory appearances are further detailed in my Exhibit____(LK-1).

5
6 **Q. On whose behalf are you testifying?**

7
8 A. I am testifying on behalf of the Kentucky Industrial Utility Customers, Inc. (“KIUC”), a
9 group a large users taking electric service on the LG&E and KU systems.

10
11 **Q. What is the purpose of your testimony?**

12
13 A. The purpose of my testimony is to address the Company’s proposal to amend its
14 environmental surcharge (“ECR”) tariff and to make recommendations that will provide
15 for recovery of the Company’s actual and just and reasonable environmental costs.

16
17 **Q. Please summarize your testimony.**

18
19 A. I recommend that the Commission make certain modifications to the Company’s
20 proposal to amend the ECR in order to provide recovery of the actual and just and
21 reasonable return on construction and other capital expenditures and reasonable

1 operating expenses, no more and no less, which is the standard provided in KRS
2 278.183. First, I recommend that the Commission continue to apply a pollution control
3 (“PC”) debt only rate of return to the ECR rate base investments for projects previously
4 approved by the Commission (1-5 for LG&E and 1-15 for KU). However, I recommend
5 that the Commission revise the PC debt rate for LG&E to reflect the lower actual costs it
6 has achieved through refinancing a portion of its PC debt.

7 Second, I recommend that the Commission apply a weighted average actual cost of
8 capital to the rate base investment in new ECR projects approved by the Commission.
9 This actual cost of capital should be computed on a monthly basis and first apply all
10 outstanding short term debt, including the Company’s accounts receivable financing, to
11 these new capital costs. Such an approach would provide the Company full recovery of
12 its actual financing costs.

13 Third, I recommend that the Commission reject the Company’s proposed weighted
14 average cost of capital because that approach does not reflect the Company’s actual
15 financing costs, does not result in the timely incorporation of changes in its actual
16 financing costs, and results in excessive ECR charges that are not just and reasonable.
17 There is no reasonable basis to accept the Company’s assumption that its new
18 incremental environmental investments will be financed at its historic embedded cost of
19 capital.

1 Fourth, I make several recommendations regarding the capital and operating expenses
2 that should not be allowed recovery through the ECR, including internal payroll and
3 overhead costs and common costs that properly should be allocated to unregulated
4 activities; quantification of retirements; exclusion of cash working capital; exclusion of
5 auxiliary power from O&M expense; and depreciation expense.

6
7 Finally, I recommend that the Commission include all transmission revenues in the
8 wholesale revenues utilized in the jurisdictional allocation of the ECR revenue
9 requirement.

II. ACTUAL AND JUST AND REASONABLE RETURN ON ECR RATE BASE

Description of Company's Rate of Return Proposal

Q. Please describe the Company's proposal to utilize the embedded weighted average cost of capital for the rate of return on incremental environmental rate base included in the ECR surcharge mechanism.

A. The Company's proposal is detailed in the testimony of Mr. Hewett. The Company has proposed to utilize the overall rate of return based upon the capital structure in effect at the end of the first expense month, which it then would apply prospectively for each of the six months during the six month review period. This proposal is predicated on the assumption that the historic embedded cost of capital will be its actual cost of capital for six months following. There is no stated intent to provide a true-up to the actual cost of capital during the Commission's six month or two year reviews.

The Company's proposed weighted cost of capital includes notes payable as short term debt, long term debt, preferred stock and common equity as detailed on Mr. Hewett's Exhibit RMH-1. The short term debt does not include accounts payable to associated companies, which may include borrowings from affiliates through the LG&E Energy

1 Money Pool. The Company's proposed weighted cost of capital does not address if or
2 how it will incorporate other short term debt in the future, although its responses to
3 PSC-1-4 indicates that the notes payable consists of commercial paper. In addition, the
4 Companies proposed weighted cost of capital does not address the factoring of its
5 accounts receivables and the exchange of on-balance sheet financing for off- balance
6 sheet financing.

7
8 **Q. How does the Company plan to apply the weighted average cost of capital?**

9
10 **A.** Neither Mr. Hewett nor the Company's Application in this proceeding addressed the
11 application of the cost of capital to the environmental rate base. The Application simply
12 requested that the Commission approve "the recovery of an overall rate of return that
13 includes an 11.50% return on common equity." However, in response to PSC-1-1 and
14 PSC-1-10, the Company stated that it would continue to apply the existing pollution
15 control debt rate of return to the previously authorized projects (1-5 for LG&E and 1-15
16 for KU) and the overall rate of return only to the new NOx compliance projects. In
17 response to KIUC-2-16, the Company provided its proposed revisions to the forms
18 utilized for filing the ECR that reflect the application of two different rates of return,
19 one for the existing projects and one for the new projects.

1 **Q. What is the rate of return the Company has computed as of September 2000 for**
2 **illustrative purposes?**

3
4 **A. The rate of return reflected in Mr. Hewett's Exhibit RMH-1 for LG&E is 8.34% and for**
5 **KU is 9.35%. However, it is essential to understand that the Company is not requesting**
6 **these overall rates of return, but rather is requesting rates of return of 12.18% and**
7 **13.63%, for LG&E and KU, respectively. These rates of return are more than double**
8 **the existing PC debt only rates of return of 5.60% and 5.85% for LG&E and KU,**
9 **respectively.**

10
11 The preferred and common components of the rate of return on Mr. Hewett's Exhibit
12 are not grossed up for income taxes, although the rates of return are grossed up for
13 income taxes in the Company's proposed ECR tariff (through the "TR" term). The
14 gross-up for income taxes results in an overall return of 12.18% for LG&E and 13.63%
15 for KU, assuming the same 40.462% combined federal and state income tax rate utilized
16 by the Commission in Case Nos. 1998-426 and 1998-474 for LG&E and KU,
17 respectively. My computations of these overall rates of return are simply modifications
18 of Mr. Hewett's Exhibit RMH-1 and are replicated as my Exhibit____(LK-2).

1 Due to the two-fold increase in the requested rates of return, it is necessary for the
2 Commission to determine whether these embedded costs of capital represent the actual
3 financing costs of the incremental environmental costs.
4

5 **Q. Does the Company's proposed modification to the ECR include the effects of**
6 **LG&E's PC debt refinancing, as authorized by the Commission in Case No. 2000-**
7 **275?**
8

9 A. No. In June 2000, the Company applied to the Commission for authorization to
10 refinance its Trimble County, Kentucky 7.625% Pollution Control Revenue Bonds,
11 1990 Series A. In its Application and attached supporting documentation, LG&E
12 assumed a reduction in the Series average interest rate from 7.625% to 4.70%. The
13 Commission authorized the refinancing in Case No. 2000-275 on July 18, 2000. The
14 Company actually refinanced the Series in August 2000, with an average interest rate at
15 September 30, 2000 of 4.40%. However, LG&E has failed to propose a reduction in the
16 PC debt rate of return in this proceeding that will continue to be applied to the existing
17 LG&E environmental compliance projects 1-5, despite the drastic reduction in the
18 Company's actual costs.
19

Principles Underlying Determination of Rate of Return on ECR Rate Base

Q. What principles should the Commission employ in its determination of the appropriate rate of return on environmental rate base included in the ECR?

A. There are two fundamental principles that should be employed. The first principle is that the rate of return should reflect actual costs. The second principle is that the rate of return should reflect just and reasonable costs. Both of these requirements are found in KRS 278.183, the environmental surcharge statute. Section (1) of that statute states:

These costs shall include a reasonable return on construction and other capital expenditures and reasonable operating expenses for any plant, equipment, property, facility, or other action to be used to comply with applicable environmental requirements set forth in this section. (emphasis added)

In addition, Section (3) of that statute states:

At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate, incorporate surcharge

1 **amounts found just and reasonable into the existing base rates of**
2 **each utility. (emphasis added)**
3

4 **Q. Why should only actual costs be reflected in the ECR?**

5
6 A. The ECR mechanism represents a special form of ratemaking that provides a utility
7 incremental revenues based upon the incurrence of incremental environmental costs
8 virtually contemporaneous with the incurrence of those costs. Unlike the base
9 ratemaking process, which establishes rates for prospective application based upon a
10 representative test year, the ECR ratemaking process, by statute, provides for recovery
11 of actual costs in arrears. Generally, there is no need to estimate those costs due to the
12 fact that they are identified on the Company's books as incurred and reported monthly.
13 Actual costs are objective, verifiable, generally not in dispute, subject to audit, and are
14 available on a timely and current basis.

15
16 **Q. Does the Company agree as a matter of principle that only its actual costs should**
17 **be recovered through the ECR?**

18
19 A. Yes. In response to KIUC's request for projected financial information (KIUC-2-2), the
20 Company refused to provide that information and stated:

21 **LG&E and KU are not proposing to recover the projected cost of**
22 **their environmental cost of compliance in their environmental**
23

1 surcharges. The utilities are requesting pursuant to the statute to
2 recover their actual costs of complying with applicable
3 environmental requirements. (emphasis added)
4

5 **Q. How should the Commission determine the Company's actual rate of return on**
6 **environmental rate base?**

7
8 **A.** The actual rate of return should be computed for each expense month, consistent with
9 the determination of other actual costs for each expense month. This is necessary
10 because the actual rate of return generally varies on a monthly basis. The capital
11 structure and the costs of debt and preferred change monthly due to new securities
12 issuances, redemptions, refinancings, earnings, and dividends. For example, the
13 Company plans to issue up to \$400 million of commercial paper in order to finance its
14 construction activities, including environmental costs within the next few years. The
15 Company also plans other short term borrowings, including borrowings from its
16 affiliates through the Money Pool. Thus, the capital structure and the costs of debt will
17 change monthly as the Company incurs and finances environmental capital costs.

18
19 In addition, the common equity balance changes monthly regardless of whether there is
20 additional common equity investment by LG&E Energy. Earnings for the month
21 increase common equity through retained earnings and vary widely by month. Common
22 dividends declared by the Company to LG&E Energy reduce common equity through

1 retained earnings and vary widely by month, with both the timing and the magnitude of
2 these dividends affecting the capital structure and rate of return.

3
4 Finally, the actual rate of return computed monthly should reflect the Company's actual
5 costs of financing. These actual costs include the costs of various types of short term
6 financing. None of these actual short term financing costs are reflected in the
7 Company's base rates which reflect only long term debt. The Company's financing
8 plans for its environmental construction, according to Company witness Mr. Hewett in
9 the Company's Case No. 2000-112, are based upon the initial issuance of commercial
10 paper, which it then intends to replace with long term securities once it is economic to
11 do so. In addition, in Case No. 2000-490, the Commission recently authorized the use
12 of accounts receivable financing. This provides another source of financing for the
13 Company's environmental construction and rate base. The Company also participates
14 in a Money Pool with its affiliates, from which it periodically borrows on a short term
15 basis. I have replicated pages from the Company's filing with the SEC describing its
16 plans to issue short term debt to finance its construction activities as my Exhibit
17 ____ (LK-3). Thus, the actual rate of return on the incremental environmental capital
18 costs should reflect first the issuance of these various types of short term debt,
19 especially during construction when the Company includes Construction Work in
20 Progress ("CWIP") in its environmental rate base.

1 **Q. The Company has proposed to utilize its weighted average cost of capital, including**
2 **“notes payable” as short term debt, recomputed every six months for application**
3 **on a prospective basis. Does this proposal properly reflect the actual cost of**
4 **capital?**

5
6 **A.** No. First, the Company’s proposed cost of capital by definition does not reflect actual
7 costs during the six month period in which it will be applied. In particular, the
8 Company’s proposal assumes that its historic cost of capital will remain unchanged for
9 the next six months. That may be a valid assumption for base ratemaking purposes or
10 even for ECR purposes if there were no significant additional environmental
11 construction expenditures. However, that is not the case. The Company plans
12 significant environmental construction expenditures over the next several years for NOx
13 compliance, which at least initially, will be financed with commercial paper and other
14 forms of short term financing.

15
16 Second, the Company’s proposal does not utilize an average over a historic six month
17 period, but rather the capital structure and cost of capital at the end of the two months
18 preceding the six month billing period. Thus, the Company’s proposal is not
19 representative of an actual historic six month period or twelve month test year and may
20 contain anomalies due to the timing of various forms of financing that are not

1 representative of the actual prospective six month period. Such problems easily could
2 be eliminated simply by updating the actual cost of capital monthly.

3
4 Third LGE's proposal, as previously noted, fails to reflect the actual reduction in the
5 cost of its PC debt.

6
7 **Q. Does the Company's proposal properly reflect short term debt and other forms of**
8 **financing utilized by the Company for environmental construction?**

9
10 **A.** No. First, the Company's proposal does not reflect the actual financing that has been
11 and will be undertaken by the Company. Although it does reflect a fixed amount of
12 commercial paper, it does not reflect accounts receivables financing, changes in the
13 commercial paper balances, borrowing from affiliates through the Money Pool, or
14 various other forms of financing. It is clear that the Company will utilize these lower
15 cost forms of financing. It has done so in the past and, according to its own witness in
16 the Case No. 2000-112 proceeding and its filings with the FERC and the SEC, it plans
17 to do so in the future. Utilizing the least cost forms of financing clearly is in the
18 economic and financial self-interest of the Company, LG&E Energy and Power Gen. It
19 also should be in the interest of the Company's ratepayers, but only will be if the actual
20 lower costs are reflected in the ECR revenue requirement.

1 Second, the Company's approach fails to properly assign short term debt first to the new
2 environmental control costs. The Company's approach instead assumes that this short
3 term debt is allocated between its existing non-environmental rate base, existing
4 environmental rate base, and the new environmental rate base, with only a small fraction
5 of the short term debt allocated to the new environmental rate base. Such an assumption
6 is not appropriate because the Company included no short term debt in the Company's
7 capital structure in the most recent base ratemaking proceeding and the existing
8 environmental rate base is financed through PC debt. Existing base rates and existing
9 ECR rates do not reflect the benefit of this low cost short term debt financing. By
10 including short term debt in the capital structure utilized to compute the overall rate of
11 return rather than assigning it first to new environmental rate base, the Company
12 effectively has allocated nearly all of the lower actual costs to its shareholder, LG&E
13 Energy. In that manner, the Company retains most of the benefit of its short-term debt
14 financing while recovering a rate of return well in excess of actual costs. Such a result
15 does not reflect the Company's actual environmental costs for the surcharge, is
16 inequitable, and will result in ECR rates that are not just and reasonable.

17
18 **Q. Should the Commission rely on the decision in Case No. 96-489 as precedent?**

19
20 **A.** Not necessarily. First, it should be noted that the Commission's decision in the
21 Kentucky Power ECR power proceeding utilized two separate rates of return. As a

1 result, the return utilized for the Rockport environmental rate base is updated monthly
2 and the return utilized for the Big Sandy environmental rate base is updated every six
3 months. Thus, either approach could serve as precedent, if precedent is the decision
4 factor.

5
6 Second, in Case 96-489, the Commission rejected the PC debt only rate of return
7 precedent it had established in Case Nos. 94-336 and 93-465 for LG&E and KU,
8 respectively. Thus, precedent is not necessarily an appropriate or the only basis upon
9 which subsequent Commission decisions are or should be based. If it were, then the
10 Commission would or should have reflected a PC debt only rate of return for Kentucky
11 Power, but it did not.

12
13 Finally, as a matter of ratemaking principle and pursuant to KRS 278.183, the Company
14 is entitled to recover its actual costs, no more and no less. These statutory
15 considerations must supercede adherence to precedent simply for the sake of precedent.

Existing ECR Investment and Pollution Control Debt

Q. What rate of return should the Commission utilize for existing environmental rate base in the ECR?

A. The Commission should continue to utilize the actual cost of the Company's PC debt. However, the Commission should update the PC debt rate of return for LG&E in order to reflect the Company's actual PC debt costs after the August 2000 refinancing.

New ECR Investment and Actual Rate of Return

Q. What rate of return should the Commission utilize for the new environmental rate base in the ECR?

A. The Commission should utilize the Company's actual rate of return computed on a monthly basis. However, the actual rate of return should be quantified such that the Company's short term debt, regardless of its form, is first applied to the new environmental costs included in the ECR. If the new environmental rate base is in excess of the Company's short term debt, then the excess new environmental rate base should receive a rate of return based upon the Company's actual overall rate of return excluding short term debt.

1 **Q. Why should the Commission find that the new environmental rate base is financed**
2 **first with short term debt instead of assuming, as did the Company, that embedded**
3 **historic costs should be applied to incremental costs?**

4
5 **A.** First, this is the manner in which the Company actually will finance its new
6 environmental rate base, according to the testimony of its own witness. The Company
7 will not finance incrementally on the basis of its historic capital structure.

8
9 Second, to date, the Company has provided no benefit of the lower cost short term debt
10 to ratepayers either through base rates or the ECR, while it has retained the entirety of
11 the benefits of this actual lower cost financing.

12
13 Third, such an approach is consistent with FERC Orders 561 and 561-A, which
14 establish the methodology for computing the rate of return utilized for Allowance for
15 Funds Used During Construction (“AFUDC”). These Orders conclude that new
16 construction first is financed with short term debt and the computation of the AFUDC
17 rate reflects that conclusion. The rate of return on construction costs in excess of the
18 balance of short term debt reflects the utility’s overall rate of return excluding short
19 term debt, which again, is consistent with the utility’s actual financing. I have
20 replicated 18 CFR Ch. 1 Part 101 Uniform System of Amounts Electric Plant
21 Instructions Paragraph 3.A. (17), which details the FERC’s required AFUDC

1 computation in accordance with the FERC Orders as my Exhibit ____ (LK-4). I also have
2 replicated page 218 from each Company's 1999 FERC Form 1 that provides the
3 FERC's instructions and formula for the AFUDC rate of return computation as my
4 Exhibit ____ (LK-5). These exhibits detail the FERC's required computations.
5

6 **Q. How should the Commission incorporate the Company's accounts receivable**
7 **financing in the overall rate of return?**
8

9 A. The Company's accounts receivable financing should be reflected as short term debt for
10 ECR ratemaking purposes. Accounts receivable financing represents off-balance sheet
11 financing because the Company effectively is allowed to net this financing against its
12 accounts receivable balance and thereby remove the accounts receivable balance from
13 the asset side of the balance sheet and not record the debt financing on the liability side
14 of the balance sheet. Similar to the other forms of short term debt financing employed
15 by the Company, to date, the ratepayers have received absolutely no benefit from the
16 lower actual costs due to this form of financing. The savings due to the lower actual
17 costs have inured to the Company's parent, LG&E Energy.
18

Modifications to the Company's Proposed ECR Tariff

Q. Please describe the modifications proposed by the Company to the ECR tariff to implement its rate of return proposal.

A. The proposed tariff modifications for each Company are detailed in the Applications, which I have replicated as my Exhibit___(LK-6). For LG&E, the rate of return ("ROR") component was changed to separately identify the debt rate of return ("DR") and to explicitly include the tax rate ("TR") factor in the equation to reflect the income tax gross-up on the equity portion of the return. For KU, the DR component was changed to the "debt rate of return" from the "pollution control bond rate of return."

Q. Does the Company's proposed tariff specifically reflect the PC debt only rate of return on the existing environmental projects and the proposed overall rate of return on the new environmental projects?

A. No. The Commission should consider whether the tariff should reflect the split return approach, although it is not essential if the Commission's Order describes how this approach will be implemented and the appropriate ECR Forms are adopted, such as those proposed by the Company in response to KIUC-2-16. It should be noted that, in response to KIUC-2-16, the Company provided an example of the Forms that will be

1 required to track separately the rate base for the existing and the new environmental
2 projects. However, the Company's proposed Forms did not include any details of the
3 computation of the cost of capital.

4
5 **Q. Should the Commission require the Company to develop and file new ECR Forms**
6 **that detail the computation of the cost of capital that will be applied to the existing**
7 **and new environmental projects consistent with the Commission's Order in this**
8 **proceeding?**

9
10 **A.** Yes. Such Forms would assist the Commission in reviewing the Company's monthly
11 ECR filings. The Commission requires two Forms for this purpose from AEP
12 (Kentucky Power) in its ECR filings. For the monthly Rockport cost of capital, AEP
13 files Schedule 3.2 and for the six month Big Sandy cost of capital, AEP files Schedule
14 3.1. Both forms provide the dollars for each component of the capital structure, the
15 weighted cost for each component, the gross-up for income taxes on the equity
16 components, and the grossed-up weighted average cost of capital.

III. OTHER COSTS

Capital Costs

Q. Should the Company be allowed to include internal payroll and overhead costs in the capital costs or O&M expenses included in the ECR?

A. No. Such costs are not incremental costs appropriate for recovery through the ECR. These costs currently are recovered through the base ratemaking process and have not been recovered through the ECR in the past, according to the Company's response to KIUC-2-19. However, the Company refused to preclude recovery of these costs in the future through the ECR, suggesting that such charges could be addressed "in the applicable 6-month environmental surcharge review cases."

The Commission should address this issue in this proceeding and reject the Company's proposal to "catch us if you can" in a future proceeding. If the Company is allowed to include internal payroll and overhead costs in the capital costs and/or O&M expenses included in the ECR, it would represent double recovery of the same costs, once through base rates and then again through the ECR. The Commission specifically should prohibit the Company from including such costs in the capital costs and O&M expenses in the ECR.

1 **Q. Certain of the costs incurred by LG&E Energy for environmental activities may be**
2 **for the benefit of Western Kentucky Energy as well as for LG&E and KU. Should**
3 **the Commission be concerned that such costs are properly allocated between**
4 **regulated and unregulated activities?**

5
6 **A. Yes. The Commission should direct the Companies to properly allocate such costs**
7 **between regulated and unregulated activities and be prepared to document those**
8 **allocations in the periodic six month and/or two year reviews. For example, the costs to**
9 **investigate various NOx reduction technologies should be allocated between the**
10 **regulated and unregulated activities and should not be borne only by LG&E and KU.**

11
12 **Q. Is it clear how the Company plans to reflect retirements of environmental**
13 **investments in conjunction with the new NOx reduction projects in its ECR filings?**

14
15 **A. No. In the Company's prior surcharge proceedings, the Commission required it to**
16 **remove retirements of environmental investments at net book value, the amounts**
17 **included in existing base rates. The Company failed to respond to the hypothetical**
18 **posed in KIUC-1-7(b), which requested the "appropriate adjustments" that would be**
19 **necessary for retirements of existing pollution control facilities, assuming \$100 in plant**
20 **in service and \$60 in accumulated depreciation. The "appropriate adjustment" would**
21 **have been an environmental rate base reduction of \$40. In response to a follow-up**

1 question in KIUC-2-22, the Company stated that it's accounting entry would be to
2 reduce both plant in service and accumulated depreciation by \$100. Of course, under
3 such a scenario, there would be no reduction in the environmental rate base for any
4 retirements.

5
6 Given this apparent uncertainty, the Commission should direct the Company to reflect
7 retirements at net book value. Such an approach will remove any ambiguity that might
8 exist.

9
10 **Cash Working Capital**

11
12 **Q. Should the Commission continue to include a cash working capital allowance in the**
13 **ECR given the Company's accounts receivable financing?**

14
15 **A.** No. LG&E currently is not authorized to recover a cash working capital allowance
16 through the ECR, although KU is. There is no reason to grant this authority now to
17 LG&E or to continue a cash working capital allowance for KU based upon one eighth of
18 O&M expense. The Companies have not provided any evidence in support of an actual
19 cash working capital requirement. To the contrary, the evidence is that Companies have
20 dramatically accelerated the actual cash flow from their receivables through factoring.
21 Despite this significant acceleration of cash flow and reduction in actual cash working

1 capital requirements, the Company would have the Commission rely upon the one
2 eighth of O&M expense formula without critical review.

3
4 If the Commission continues to allow a cash working capital allowance, it will be as if
5 the Company never had engaged in receivables financing. In Case No. 2000-490, the
6 Companies informed the Commission and other parties that pursuant to the program,
7 LG&E and KU would finance as much as \$75 million and \$50 million, respectively.
8 Those amounts far exceed the cash working capital allowances of either Company if
9 they were based upon the one-eighth formula (approximately \$0.05 million for LG&E
10 and \$0.5 million for KU).

11
12 **Operating Expenses**

13
14 **Q. In response to KIUC-1-5, Mr. Bellar and Mr. Robinson stated that the incremental**
15 **variable O&M expenses that would be booked to accounts 506105 and 512101**
16 **include catalyst replacement, ammonia, and auxiliary power. Should the costs of**
17 **auxiliary power be included in the ECR as variable O&M expense?**

18
19 **A.** No. The Company has since modified its position on this issue. Such costs typically
20 are recovered through the FAC, although the Company asserts in response to KIUC-2-
21 21 that it recovers such costs through base rates. Nevertheless, the Company now has

1 agreed (response to KIUC-2-20) that the costs of auxiliary power “would not be booked
2 into Accounts 506105 or 512101, and thus would not be included in surcharge
3 recovery.” Although there now appears to be no disagreement with the Company
4 regarding whether auxiliary power costs should be included in the ECR, the
5 Commission should state in its Order that such costs are not recoverable in the ECR.
6 Such direction would preclude the potential double recovery of such costs in both base
7 (or FAC) rates and ECR rates.

8
9 **Q. Do you agree with the Company’s request for ECR recovery of incremental actual**
10 **O&M expenses for the new environmental projects?**

11
12 **A. Yes. As a conceptual matter and in accordance with KRS 278.183, such costs are**
13 **properly recoverable. Such recovery of actual costs is consistent with recovery of only**
14 **the actual financing costs for incremental environmental capital costs.**

15
16 **Q. Previously, you recommended that the Commission direct the Company to ensure**
17 **that all capital costs were properly allocated between regulated and unregulated**
18 **activities. Does this recommendation extend to O&M expenses as well?**

19
20 **A. Yes, and for the same reasons stated previously.**
21

1 **Depreciation Expense**

2
3 **Q. Mr. Robinson has stated that the Company intends to change its depreciation rates**
4 **on the environmental plant in service once the Company completes a depreciation**
5 **study currently in progress. Should the Company have the discretion to**
6 **unilaterally change the depreciation rates on its environmental plant in service?**

7
8 **A.** No. The Commission should not accept any change in depreciation rates for ECR
9 purposes until the Companies file the study with the Commission, the Commission has
10 reviewed the study, and the Commission has determined that any change in the
11 depreciation rates are due to appropriate changes in the useful life of the ECR
12 investment and not due to changes in depreciation methodology or assumptions such as
13 increased levels of negative salvage. If there are substantial changes in methodology or
14 assumptions, then the Commission should docket the depreciation study and set a
15 procedural schedule for discovery, testimony, and hearing. Changes in depreciation
16 rates will affect not only the ECR but also base rates pursuant to the ESM.

1 **IV. ALLOCATION TO KENTUCKY RETAIL JURISDICTION**

2
3 **Q. Please describe how the Company has treated wholesale transmission revenues for**
4 **purposes of the allocation of the ECR revenue requirement to Kentucky retail**
5 **ratepayers.**

6
7 **A.** There are at least two types of wholesale transmission revenues and different treatments
8 of these revenues for purposes of the Kentucky retail allocation of the ECR revenue
9 requirement. The first type is transmission revenues associated with off-system sales.
10 The Company books these revenues to account 447 (sales for resale) and includes them
11 in wholesale revenues for ECR allocation purposes. It isn't clear, however, whether the
12 Company includes transmission revenues associated with "brokered sales" in wholesale
13 revenues for ECR allocation purposes, because it excludes "brokered sales" revenues
14 included in account 447 from the wholesale and other jurisdiction revenues, according
15 to its response to KIUC-2-32.

16
17 The second type is transmission revenues associated with "reservations made by
18 customers on the Open Access Same-Time Information System (OASIS)." The
19 Company books these transmission service revenues to account 456 (other electric
20 revenues) and does not include them in wholesale revenues for ECR allocation
21 purposes. These transmission revenues were \$2.832 million for LG&E and \$2.865

1 million for KU during the twelve months ending November 30, 2000, according to the
2 Company's response to KIUC-2-28.

3 KU also receives transmission service revenues from Gallatin Steel for transmitting
4 power from LG&E to East Kentucky Power. Although it is not clear from the
5 Company's response to KIUC-2-29 how these revenues were included in transmission
6 revenues, KU booked \$1.101 million in transmission revenues to account 456 for the
7 twelve months ending November 2000. These amounts were not included by KU in
8 wholesale revenues for ECR allocation purposes.

9 **Q. Should the Commission ensure that all transmission revenues are included in**
10 **wholesale and other jurisdiction revenues for jurisdictional allocation purposes?**

11 A. Yes. The Commission should ensure that all transmission service revenues are included
12 in the wholesale and other jurisdiction revenues and not simply excluded by the
13 Company in order to minimize the allocation of the ECR revenue requirement to the
14 wholesale and other jurisdictions. The Commission should require the Company to
15 include transmission services revenues booked to account 456 in the wholesale and
16 other jurisdiction as a matter of consistent revenue recognition for ECR allocation
17 purposes.

1 **Q.** **Does this complete your testimony?**

2

3 **A.** **Yes.**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
AND ELECTRIC COMPANY FOR APPROVAL)	
AN AMENDED COMPLIANCE PLAN FOR)	
PURPOSES OF RECOVERING THE COSTS OF)	
NEW AND ADDITIONAL POLLUTION)	CASE NO. 2000-439
CONTROL FACILITIES AND TO AMEND ITS)	
ENVIRONMENTAL COST RECOVERY)	
SURCHARGE TARIFF)	

EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

January 2001

000839

EXHIBIT ____ (LK-1)

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Management Accountants

More than twenty years of utility industry experience in the financial, rate, tax, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

J. KENNEDY AND ASSOCIATES, INC.

000841

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to

Present:

Kennedy and Associates: Vice President and Principal. Responsible for utility stranded cost analysis, revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Maine, Minnesota, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, and West Virginia state regulatory commissions and the Federal Energy Regulatory Commission.

1983 to

1986:

Energy Management Associates: Lead Consultant.

Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to

1983:

The Toledo Edison Company: Planning Supervisor.

Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

J. KENNEDY AND ASSOCIATES, INC.

000842

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED**Industrial Companies and Groups**

Air Products and Chemicals, Inc.	Lehigh Valley Power Committee
Airco Industrial Gases	Maryland Industrial Group
Alcan Aluminum	Multiple Intervenors (New York)
Armco Advanced Materials Co.	National Southwire
Armco Steel	North Carolina Industrial
Bethlehem Steel	Energy Consumers
Connecticut Industrial Energy Consumers	Occidental Chemical Corporation
ELCON	Ohio Industrial Energy Consumers
Enron Gas Pipeline Company	Ohio Manufacturers Association
Florida Industrial Power Users Group	Philadelphia Area Industrial Energy
General Electric Company	Users Group
GPU Industrial Intervenors	PSI Industrial Group
Indiana Industrial Group	Smith Cogeneration
Industrial Consumers for	Taconite Intervenors (Minnesota)
Fair Utility Rates - Indiana	West Penn Power Industrial Intervenors
Industrial Energy Consumers - Ohio	West Virginia Energy Users Group
Kentucky Industrial Utility Consumers	Westvaco Corporation

**Regulatory Commissions and
Government Agencies**

Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
Maine Office of Public Advocate
New York State Energy Office
Office of Public Utility Counsel (Texas)

J. KENNEDY AND ASSOCIATES, INC.**000843**

RESUME OF LANE KOLLEN, VICE PRESIDENT

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation

Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim 19th Judicial District Ct.	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR- 87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.

J. KENNEDY AND ASSOCIATES, INC.

000845

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017-1C001	PA	GPU Industrial Intervenor	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017-2C005	PA	GPU Industrial Intervenor	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017-1C001 Rebuttal	PA	GPU Industrial Intervenor	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017-2C005 Rebuttal	PA	GPU Industrial Intervenor	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.

J. KENNEDY AND ASSOCIATES, INC.

000846

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdic.	Party	Utility	Subject
10/88	88-171- EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of canceled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.

J. KENNEDY AND ASSOCIATES, INC.

000847

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdic.	Party	Utility	Subject
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., West Penn Power Co. Armco Advanced Materials Co., The West Penn Power Industrial Users' Group		Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

J. KENNEDY AND ASSOCIATES, INC.

000848

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
12/91	91-410- EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715- AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.

J. KENNEDY AND ASSOCIATES, INC.

000849

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464-EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.

J. KENNEDY AND ASSOCIATES, INC.

000850

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post- Merger Earnings Review	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policies, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post- Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.

J. KENNEDY AND ASSOCIATES, INC.

000851

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdict.	Party	Utility	Subject
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Division	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95	U-21485 (Supplemental Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
12/95	U-21485 (Surrebuttal)				
1/96	95-299- EL-AIR 95-300- EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co. The Cleveland Electric Illuminating Co.	Competition, asset writeoffs and revaluation, O&M expense, other revenue requirement issues.
2/96	PUC No. 14967	TX	Office of Public Utility Counsel	Central Power & Light	Nuclear decommissioning.
5/96	95-485-LCS	NM	City of Las Cruces	El Paso Electric Co.	Stranded cost recovery, municipalization.
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96 11/96	U-22092 U-22092 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.
10/96	96-327	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental surcharge recoverable costs.
2/97	R-00973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Stranded cost recovery, regulatory assets and liabilities, intangible transition charge, revenue requirements.
3/97	96-489	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental surcharge recoverable costs, system agreements, allowance inventory, jurisdictional allocation.
6/97	TO-97-397	MO	MCI Telecommunications Corp., Inc., MCImetro Access Transmission Services, Inc.	Southwestern Bell Telephone Co.	Price cap regulation, revenue requirements, rate of return.

J. KENNEDY AND ASSOCIATES, INC.

000852

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdic.	Party	Utility	Subject
6/97	R-00973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	R-00973954	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Depreciation rates and methodologies, River Bend phase-in plan.
8/97	97-300	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co. and Kentucky Utilities Co.	Merger policy, cost savings, surcredit sharing mechanism, revenue requirements, rate of return.
8/97	R-00973954 (Surrebuttal)	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates.
10/97	R-974008	PA	Metropolitan Edison Industrial Users Group	Metropolitan Edison Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
10/97	R-974009	PA	Penelec Industrial Customer Alliance	Pennsylvania Electric Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
11/97	97-204 (Rebuttal)	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates, cost allocation.
11/97	U-22491	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
11/97	R-00973953 (Surrebuttal)	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.

J. KENNEDY AND ASSOCIATES, INC.

000853

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisd.	Party	Utility	Subject
11/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements, securitization.
11/97	R-974104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
12/97	R-973981 (Surrebuttal)	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements.
12/97	R-974104 (Surrebuttal)	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
1/98	U-22491 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
2/98	8774	MD	Westvaco	Potomac Edison Co.	Merger of Duquesne, AE, customer safeguards, savings sharing.
3/98	U-22092 (Allocated Stranded Cost Issues)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
3/98	8390-U	GA	Georgia Natural Gas Group, Georgia Textile Manufacturers Assoc.	Atlanta Gas Light Co.	Restructuring, unbundling, stranded costs, incentive regulation, revenue requirements.
3/98	U-22092 (Allocated Stranded Cost Issues) (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro- Electric Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.
10/98	9355-U	GA	Georgia Public Service Commission Advocate Staff	Georgia Power Co.	Affiliate transactions.

J. KENNEDY AND ASSOCIATES, INC.

000854

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
10/98	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, other revenue requirement issues.
11/98	U-23327	LA	Louisiana Public Service Commission Staff	SWEPCO, CSW and AEP	Merger policy, savings sharing mechanism, affiliate transaction conditions.
12/98	U-23358 (Direct)	LA	Louisiana Public Service Commission	Energys Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
12/98	98-577	ME	Maine Office of Public Advocate	Maine Public Service Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
1/99	98-10-07	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, investment tax credits, accumulated deferred income taxes, excess deferred income taxes.
3/99	U-23358 (Surrebuttal)	LA	Louisiana Public Service Commission	Energys Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
3/99	98-474	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co.	Revenue requirements, alternative forms of regulation.
3/99	98-426	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements, alternative forms of regulation.
3/99	99-082	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co.	Revenue requirements.
3/99	99-083	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements.
4/99	U-23358 (Supplemental Surrebuttal)	LA	Louisiana Public Service Commission	Energys Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
4/99	99-03-04	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Regulatory assets and liabilities, stranded costs, recovery mechanisms.
4/99	99-02-05	CT	Connecticut Industrial Utility Customers	Connecticut Light and Power Co.	Regulatory assets and liabilities stranded costs, recovery mechanisms.
5/99	98-426 99-082 (Additional Direct)	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co.	Revenue requirements.

J. KENNEDY AND ASSOCIATES, INC.

000855

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
5/99	98-474 99-083 (Additional Direct)	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements.
5/99	98-426 98-474 (Response to Amended Applications)	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co. and Kentucky Utilities Co.	Alternative regulation.
6/99	97-596	ME	Maine Office of Public Advocate	Bangor Hydro- Electric Co.	Request for accounting order regarding electric industry restructuring costs.
6/99	U-23358	LA	Louisiana Public Public Service Comm.	Entergy Gulf States, Inc.	Affiliate transactions, cost allocations.
7/99	99-03-35	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, regulatory assets, tax effects of asset divestiture.
7/99	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Co., Central and South West Corp, and American Electric Power Co.	Merger Settlement Stipulation.
7/99	97-596 (Surrebuttal)	ME	Maine Office of Public Advocate	Bangor Hydro- Electric Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
7/99	98-0452- E-GI	WVa	West Virginia Energy Users Group	Monongahela Power, Potomac Edison, Appalachian Power, Wheeling Power	Regulatory assets and liabilities.
8/99	98-577 (Surrebuttal)	ME	Maine Office of Public Advocate	Maine Public Service Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.
8/99	98-426 99-082 (Rebuttal)	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements.
8/99	98-474 98-083 (Rebuttal)	KY	Kentucky Industrial Utility Customers Kentucky Utilities Co.	Louisville Gas and Electric Co. and	Alternative forms of regulation.
8/99	98-0452- E-GI (Rebuttal)	WVa	West Virginia Energy Users Group	Monongahela Power, Potomac Edison, Appalachian Power, Wheeling Power	Regulatory assets and liabilities.

J. KENNEDY AND ASSOCIATES, INC.

000856

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
10/99	U-24182 (Direct)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, affiliate transactions, tax issues, and other revenue requirement issues.
11/99	21527	TX	Dallas-Ft.Worth Hospital Council and Coalition of Independent Colleges and Universities	TXU Electric	Restructuring, stranded costs, taxes, securitization.
11/99	U-23358 Surrebuttal Affiliate Transactions	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Service company affiliate transaction costs.
01/00	U-24182 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, affiliate transactions, tax issues, and other revenue requirement issues.
05/00	U-21482 (Supplemental Direct)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Affiliate expense proforma adjustments.
05/00	A-110550F0147	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy	Merger with Unicom.
07/00	PUC-23344	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges and Universities	Statewide Generic Proceeding	Escalation of O&M expenses for unbundled T&D revenue requirements in projected test year.
07/00	U-21453, U-20925,U-22092 (Direct)	LA	Louisiana Public	SWEPCO	Stranded costs, regulatory assets.
08/00	U-24064	LA	Louisiana Public Service Commission	CLECO	Affiliate transaction pricing principles, subsidization of nonregulated affiliates, ratemaking adjustments.
10/00	PUC 22350 TX SOAH 473-00-1015	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges and Universities	TXU Electric Co.	Restructuring, stranded costs, recovery issues.
10/00	U-21453,U-20925 and U-22092 (Subdocket B) (Direct)		Louisiana Public Service Commission	Entergy Gulf States, Inc.	Industry restructuring, business separation plan, organization structure, hold harmless conditions, financing.

J. KENNEDY AND ASSOCIATES, INC.

000857

**Expert Testimony Appearances
of
Lane Kollen
As of January 2001**

Date	Case	Jurisdct.	Party	Utility	Subject
11/00	PUC 22350 TX SOAH 473-00-1015		The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges and Universities	TXU Electric Co.	Restructuring, T&D revenue requirements, mitigation, regulatory assets and liabilities.
11/00	R-00974104 PA (Affidavit)		Duquesne Industrial Interveners	Duquesne Light Co.	Final accounting for stranded costs, including treatment of auction proceeds, taxes, capital costs, switchback costs, and excess pension funding.
12/00	U-21453, LA U-20925, U-22092 (Surrebuttal)		Louisiana Public Service Commission	SWEPCO	Stranded costs, regulatory assets.
12/00	U-24993 LA (Direct)		Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
01/01	U-21453, U-20925 and U-22092 (Subdocket B) (Surrebuttal)		Louisiana Public Service Commission	Entergy Gulf States, Inc.	Industry restructuring, business separation plan, organization structure, hold harmless conditions, financing.

J. KENNEDY AND ASSOCIATES, INC.

000858

EXHIBIT ____ (LK-2)

Exhibit RMH-1

LOUISVILLE GAS AND ELECTRIC COMPANY
Weighted Average Cost of Capital - Electric
As of September 30, 2000

1	2	3	4	5	
	Adjusted Kentucky Jurisdictional Capitalization	Percent of Total	Annual Cost Rate	Weighted Cost of Capital (Col 3 * Col 4)	
1 Short Term Debt	\$ 113,789,964	8.51%	6.73%	0.57%	0.57%
2 Long Term Debt	524,593,819	39.24%	5.39%	2.12%	2.12%
3 Preferred Stock	82,249,768	6.15%	5.72%	0.35% X	1.68 = 0.59%
4 Common Equity	<u>616,393,256</u>	46.10%	11.50%	<u>5.30% X</u>	<u>1.68 = 8.90%</u>
5	\$ 1,337,026,807			8.34%	12.18%

KENTUCKY UTILITIES COMPANY
Weighted Average Cost of Capital
As of September 30, 2000

1	2	3	4	5	
	Adjusted Kentucky Jurisdictional Capitalization	Percent of Total	Annual Cost Rate	Weighted Cost of Capital (Col 3 * Col 4)	
1 Short Term Debt	\$25,915,379	2.53%	6.93%	0.18%	0.18%
2 Long Term Debt	\$419,625,046	40.95%	7.01%	2.87%	2.87%
3 Preferred Stock	\$34,620,386	3.38%	5.68%	0.19% $\times 1.68 = 0.32\%$	0.32%
4 Common Equity	\$544,598,691	53.14%	11.50%	6.11% $\times 1.68 = 10.26\%$	10.26%
5	<u>\$1,024,759,502</u>			<u>9.35%</u>	<u>13.63%</u>

EXHIBIT ____ (LK-3)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2000-386

**Response to the KIUC's Second Request for Information
Dated December 21, 2000**

Question No. 9

Responding Witness: S. Brad Rives

- Q-9. Please identify and provide a copy of each filing with the SEC and/or the FERC made by the Company, LG&E Energy, and/or PowerGen that addresses the authority to issue and/or levels of short term debt.
- A-9. Attached is the relevant portion of the Company's filing with the FERC and the SEC relating to short term borrowing authority.

the longer term, they are properly considered in determining whether the standards of Section 10(c)(2) have been met. See American Electric Power Co., 46 S.E.C. 1299, 1320-1321 (1978). Further, the Commission has recognized that while some potential benefits cannot be precisely estimated, nevertheless they too are entitled to be considered: "[S]pecific dollar forecasts of future savings are not necessarily required; a demonstrated potential for economies will suffice even when these are not precisely quantifiable." Centerior Energy Corp., Holding Co. Act Release No. 24073 (April 29, 1986) (citation omitted). See Energy East Corporation, Holding Co. Act Release No. 26976 (Feb. 12, 1999) (authorizing acquisition based on strategic benefits and potential, but presently unquantifiable, savings).

3. Section 10(f)

Section 10(f) provides that:

The Commission shall not approve any acquisition as to which an application is made under this section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect to such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of section 11.

As described in Item 4 of this Application, and as evidenced by the applications and the requested certification from each of the affected state regulators, Applicants intend to comply with all applicable state laws related to the proposed transaction.

B. Proposed Financings

1. Introduction and General Request

As discussed earlier, upon consummation of the Merger, Powergen and each of the Intermediate Companies will register as holding companies under Section 5 of the Act. Although LG&E Energy will remain an exempt holding company under Section 3(a)(1) of the Act, LG&E Energy and its subsidiary companies will be regulated as members of the Powergen registered holding company system. Therefore, in addition to authorization of the proposed acquisition of LG&E Energy by Powergen under Section 10 of the Act,

Applicants seek authorization to conduct a number of financial transactions during the Authorization Period.

The proposed financing authority is intended primarily to fund Powergen's U.S. operations. The Commission's approval of the proposed financings will give the Applicants flexibility that will allow them to respond quickly and efficiently to their financing needs and to changes in market conditions permitting them to efficiently and effectively carry on competitive business activities designed to provide benefits to customers and shareholders. Approval of this Application is consistent with the National Grid Order and with existing Commission precedent, both for newly registered holding company systems (See, e.g., Conectiv, Inc., HCAR No. 26833 (Feb. 26, 1998); and for holding company systems that have been registered for a longer period of time (See, e.g., The Columbia Gas System, Inc., HCAR No. 26634 (Dec. 23, 1996); Gulf States Utilities Co., HCAR No. 26451 (Jan. 16, 1996)); New Century Energies, Inc., HCAR No. 27000 (April 7, 1999)).

Applicants request authority to engage in the following transactions, which are all described in greater detail later in this Section:

(i) financings by Powergen through the issuance of ordinary shares, ADSs, and short-term debt (or the alteration of the terms of any then existing authorized securities), and guarantees of the securities and obligations of, and other forms of credit support for, the Powergen System;

(ii) financings by US Holdings, including issuance of preferred stock or debt (or the alteration of the terms of any then existing authorized securities), and guarantees of the securities and obligations of, and other forms of credit support for, the U.S. Subsidiary Companies;

(iii) financings by the Intermediate Companies, Powergen Capital and Luxembourg Securities, through issuance of ordinary shares, common stock, preferred stock and debt to, or other borrowings from, other Intermediate Companies, Powergen, Powergen Capital or Luxembourg Securities, as the case may be (or the alteration of the terms of any then existing authorized security);

(iv) financings by LG&E Energy, through issuance of short-term debt (or the alteration of the terms of any then

existing authorized security), and guarantees of the securities and obligations of, and other forms of credit support for, the LG&E Energy Subsidiary Companies;

(v) financings by the LG&E Energy Subsidiary Companies, including: (a) intra-system transactions, including but not limited to, (1) authorization of borrowings and extensions of credit made under the LG&E Energy Group's existing money pool and the repayment of these borrowings and elimination of these extensions of credit during a two year transition period, (2) the formation and implementation of two new money pools -- a Utility Money Pool and a Non-Utility Money Pool, and (3) other intra-system financings among LG&E Energy and the U.S. Non-Utility Subsidiaries; and (b) the issuance of short and long-term debt, and other securities (or the alteration of the terms of any then existing authorized security);

(vi) entering into currency and interest rate hedging instruments;

(vii) acquisitions, redemptions and retirements by Powergen and each of the U.S. Subsidiary Companies of their respective subsidiaries' securities;

(viii) forming financing entities and issuances by such entities of securities otherwise authorized herein or pursuant to applicable exemptions under the Act, including intra-system guarantees of such securities;

(ix) acquiring intermediate subsidiaries for the purpose of investing in EWGs or FUCOs, Rule 58 Subsidiaries, exempt telecommunications companies ("ETCs") or other non-exempt Non-Utility Subsidiaries;

(x) reorganization of the Intermediate Companies and the U.S. Non-Utility Subsidiaries; and

(xi) using the proceeds of financing transactions in an amount equal to \$1.992 billion for additional investment in EWGs and FUCOs.

As explained more fully herein, the specific terms and conditions of the requested authorities are not known at this time. Accordingly, the Applicants represent that the proposed transactions will be subject to the following general terms and conditions of issuance (the "Financing Parameters"):

"Guarantees", the terms "U.S. Non-Utility Subsidiary" and "U.S. Non-Utility Subsidiaries" shall also include direct or indirect subsidiaries, that are not public utility companies, that LG&E Energy may form after the Merger with the approval of the Commission, pursuant to the Rule 58 exemption or pursuant to Section 34 of the Act.

i. External Financings

(A) LG&E Energy

LG&E Energy requests authorization to obtain funds externally through sales of short-term debt securities. The Applicants request authorization for LG&E Energy to have outstanding at any time during the Authorization Period short-term debt in an aggregate principal amount of up to \$400 million.

LG&E Energy may engage in such short-term financing as it may deem appropriate in light of its needs and market conditions at the time of issuance. Such financing could include, without limitation, commercial paper sold in established U.S. or European commercial paper markets, lines of credit with banks or other financial institutions, and debt securities issued under an indenture or a note program. All transactions will be at rates or prices, and under conditions, negotiated pursuant to, based upon or otherwise determined by competitive market conditions.

(B) U.S. Utility Subsidiary Financing

LG&E and KU have financing arrangements in place, which arrangements will remain in place following the Merger. These financing arrangements are described in more detail in Appendix B, Part I hereto.

Rule 52 provides an exemption from the prior authorization requirements of the Act for most of the issuances and sales of securities by LG&E and KU because they must be approved by the relevant state public utility commission. However, certain external financings by LG&E and KU for which authorization is requested below are outside the scope of the Rule 52 exemption. The Applicants request authority for LG&E and KU to undertake the following external financings:

Short-Term Financing. All securities of LG&E and KU, except for securities with maturities of two years or less, are approved by the Kentucky Commission. Accordingly, authority is requested for LG&E and KU to maintain outstanding any such existing debt with maturities of two years or less and to issue debt with maturities of two years or less to one or more associate or non-associate lenders, provided that the aggregate principal amount of such debt to be outstanding at any one time during the Authorization Period shall not exceed \$400 million in the case of LG&E and \$400 million in the case of KU.

Each of LG&E and KU may engage in such short-term financing as each may deem appropriate in light of its needs and market conditions at the time of issuance. Such financing could include, without limitation, commercial paper sold in established U.S. or European commercial paper markets, lines of credit with banks or other financial institutions, and debt securities issued under an indenture or a note program. All transactions will be at rates or prices, and under conditions negotiated pursuant to, based upon or otherwise determined by competitive market conditions.

(C) U.S. Non-Utility Subsidiary Financings

The U.S. Non-Utility Subsidiaries have financing arrangements in place, which arrangements will remain in place following the Merger. The financing arrangements of the U.S. Non-Utility Subsidiaries of LG&E Energy are described in more detail in Appendix B, Part II hereto. To the extent such financing arrangements are not exempt under Rule 52, Applicants request authorization for such arrangements.

The U.S. Non-Utility Subsidiaries are engaged in and expect to continue to be active in the development and expansion of their existing energy-related or otherwise functionally-related, non-utility businesses. They will be competing in different sectors of the energy and other industries. In order to finance investments in such competitive arenas, it will be necessary for the U.S. Non-Utility Subsidiaries to have the ability to engage in financing transactions which are commonly accepted for such types of investments. It is believed that, in almost all cases, such financings will be exempt from prior Commission authorization pursuant to Rule 52(b). The U.S. Non-Utility

Subsidiaries will make separate application to the Commission for authorization of the issuance of any securities with respect to which the exemption under Rule 52(b) would not apply.

ii. Intra-System Financings

(A) Inter-Company Loans

The activities of LG&E Energy and the U.S. Non-Utility Subsidiaries are financed, in part, through inter-company loans. The sources of funds for the operations of LG&E Energy and the U.S. Non-Utility Subsidiaries include internally generated funds and proceeds of external financings. Outside of the LG&E Money Pool borrowings (as described below), there were outstanding as of December 31, 1999, inter-company loans among LG&E Energy and the U.S. Non-Utility Subsidiaries in a net principal amount of approximately \$757 million, including loans from LG&E Capital to LG&E Energy in the aggregate amount of approximately \$230 million. There are no other loans to LG&E Energy that will be outstanding after the Merger. All inter-company loans are payable on demand or have a maturity of less than 50 years from the date of issuance, and bear interest at a rate not to exceed the lending company's weighted average cost of borrowing.

The Applicants request authorization to maintain in place the existing inter-company loans./46/ In addition, the Applicants request authorization for additional inter-company loans from LG&E Energy to the U.S. Non-Utility Subsidiaries and among the U.S. Non-Utility Subsidiaries in a net principal amount at any one time outstanding during the Authorization Period not to exceed \$1.0 billion. The authorization for intra-system financing requested in this paragraph excludes (a) financing that is exempt pursuant to Rules 45(b) and 52, as applicable, and (b) amounts outstanding from time to time under the LG&E Money Pool and/or the Utility Money Pool and Non-Utility Money Pool.

/46/ Even if LG&E Energy is granted a continuing exemption under Section 3(a)(1) of the Act, LG&E Energy agrees to comply with the provisions of Section 12(a) of the Act. LG&E Energy requests that these borrowings and extensions of credit not be deemed illegal under the Act, pending their repayment over a reasonable period of time. Because of the amount of the borrowings, LG&E Energy requests that it be granted two years from the date of the order authorizing the proposals in this Application to repay these borrowings and eliminate the extensions of credit. The loans from LG&E Capital to LG&E Energy are demand loans, bearing interest at a blended rate equal to LG&E Capital's weighted average cost of borrowing.

Such financings would generally be in the form of cash capital contributions, open account advances, inter-company loans, and/or capital stock purchases. The terms and conditions of inter-company loans available to any borrowing company will be materially no less favorable than the terms and conditions of loans available to such borrowing company from third-party lenders. Specifically, the interest rate on inter-company loans payable by the borrower will be equal to the lending company's cost of capital.

(B) Money Pools

LG&E Money Pool. LG&E Energy, LG&E and KU currently participate in a money pool (the "LG&E Money Pool"). Through the LG&E Money Pool, LG&E and KU make unsecured short-term borrowings from the money pool and contribute surplus funds to the money pool. LG&E Energy contributes surplus funds to the LG&E Money Pool, but does not borrow from the LG&E Money Pool. At March 31, 2000, LG&E Energy and LG&E were contributors to the LG&E Money Pool and KU had borrowings from the LG&E Money Pool of approximately \$17.2 million.

The cost of money for all borrowings from the LG&E Money Pool and the investment rate for all moneys deposited in the LG&E Money Pool are set at the Money Pool Rate. The "Money Pool Rate" is determined monthly and is equal to the greater of (i) the weighted average rate of return on short-term investments of the participating companies outstanding on the last day of the prior month or, if no short-term investments are outstanding, the previous month's rate of return earned by the Financial Square Fund managed by Goldman, Sachs & Co., or (ii) the weighted average rate of any commercial paper issued by participating companies outstanding on the last day of the prior month or, if no commercial paper is outstanding, the commercial paper rates of similarly rated companies for the prior week as published in the Federal Reserve Statistical Release H.15.

LG&E Energy requests that the Commission authorize the continuation of the LG&E Money Pool for an interim period of not to exceed two years (the "Transition Period") to permit LG&E Energy to make a transition from the LG&E Money Pool to the Utility Money Pool and the Non-Utility Money Pool as discussed below.

Authorization and Operation of the Money Pools. LG&E Energy, LG&E, KU and the U.S. Non-Utility Subsidiaries

propose to replace the LG&E Money Pool with the Utility Money Pool and Non-Utility Money Pool and request authority to do so. Further, LG&E and KU, to the extent not exempted by Rule 52, also request authorization to make unsecured short-term borrowings from the Utility Money Pool and to contribute surplus funds to the Utility Money Pool and to lend and extend credit to (and acquire promissory notes from) one another through the Utility Money Pool.

LG&E Energy requests authorization to contribute surplus funds and to lend and extend credit to (a) LG&E and KU through the Utility Money Pool and (b) the U.S. Non-Utility Subsidiaries through the Non-Utility Money Pool. No loans through the Utility Money Pool would be made to, and no borrowings through the Utility Money Pool would be made by, LG&E Energy.

The Applicants believe that the cost of the proposed borrowings through the two Money Pools will generally be more favorable to the borrowing participants than the comparable cost of external short-term borrowings, and the yield to the participants contributing available funds to the two Money Pools will generally be higher than the typical yield on short-term investments.

For purposes of this section, the term "U.S. Non-Utility Subsidiary" shall include (i) the companies that are associates of the LG&E Energy Group as of the date of the filing of this Application and (ii) LG&E Services. The Commission is asked to reserve jurisdiction over the participation in the relevant money pool of future companies formed or acquired by LG&E Energy until a specific post-effective amendment is filed, naming the subsidiary to be added as a participant in the relevant money pool.

Utility Money Pool. Under the proposed terms of the Utility Money Pool, short-term funds would be available from the following sources for short-term loans to each of LG&E and KU from time to time: (1) surplus funds in the treasuries of Utility Money Pool participants, (2) surplus funds in the treasury of LG&E Energy, and (3) proceeds from bank borrowings by Utility Money Pool participants or the sale of commercial paper by the Utility Money Pool participants for loan to the Utility Money Pool ("External Funds"). Funds would be made available from such sources in such order as LG&E Services, as administrator of the Utility Money Pool, may determine would result in a lower cost of borrowing, consistent with the individual borrowing needs

and financial standing of the companies providing funds to the pool. The determination of whether a Utility Money Pool participant at any time has surplus funds to lend to the Utility Money Pool or shall borrow funds from the Utility Money Pool would be made by such participant's chief financial officer or treasurer, or by a designee thereof, on the basis of cash flow projections and other relevant factors, in such participant's sole discretion. See Exhibit N-1.1 for a copy of the Form of Utility Money Pool Agreement.

Utility Money Pool participants that borrow would borrow pro rata from each company that lends, in the proportion that the total amount loaned by each such lending company bears to the total amount then loaned through the Utility Money Pool. On any day when more than one fund source (e.g., surplus treasury funds of LG&E Energy and other Utility Money Pool participants ("Internal Funds") and External Funds), with different rates of interest, is used to fund loans through the Utility Money Pool, each borrower would borrow pro rata from each such fund source in the Utility Money Pool in the same proportion that the amount of funds provided by that fund source bears to the total amount of short-term funds available to the Utility Money Pool.

Borrowings from the Utility Money Pool would require authorization by the borrower's chief financial officer or treasurer, or by a designee thereof. No party would be required to effect a borrowing through the Utility Money Pool if it is determined that it could (and had authority to) effect a borrowing at lower cost directly from banks or through the sale of its own commercial paper.

The cost of compensating balances, if any, and fees paid to banks to maintain credit lines and accounts by Utility Money Pool participants lending External Funds to the Utility Money Pool would initially be paid by the participant maintaining such line. A portion of such costs -- or all of such costs in the event a Utility Money Pool participant establishes a line of credit solely for purposes of lending any External Funds obtained thereby into the Utility Money Pool -- would be retroactively allocated every month to the companies borrowing such External Funds through the Utility Money Pool in proportion to their respective daily outstanding borrowings of such External Funds.

If only Internal Funds make up the funds available in the Utility Money Pool, the interest rate applicable and

payable to or by the Utility Money Pool participants for all loans of such Internal Funds outstanding on any day will be the rates for high-grade unsecured 30-day commercial paper sold through dealers by major corporations as quoted in The Wall Street Journal on the preceding business day.

If only External Funds comprise the funds available in the Utility Money Pool, the interest rate applicable to loans of such External Funds would be equal to the lending company's cost for such External Funds (or, if more than one Utility Money Pool participant had made available External Funds on such day, the applicable interest rate would be a composite rate equal to the weighted average of the cost incurred by the respective Utility Money Pool participants for such External Funds).

In cases where both Internal Funds and External Funds are concurrently borrowed through the Utility Money Pool, the rate applicable to all loans comprised of such "blended" funds would be a composite rate equal to the weighted average of (a) the cost of all Internal Funds contributed by Utility Money Pool participants (as determined pursuant to the second-preceding paragraph above) and (b) the cost of all such External Funds (as determined pursuant to the immediately preceding paragraph above).

Funds not required by the Utility Money Pool to make loans (with the exception of funds required to satisfy the Utility Money Pool's liquidity requirements) would ordinarily be invested in one or more short-term investments, including: (i) interest-bearing accounts with banks; (ii) obligations issued or guaranteed by the U.S. government and/or its agencies and instrumentalities, including obligations under repurchase agreements; (iii) obligations issued or guaranteed by any state or political subdivision thereof, provided that such obligations are rated not less than "A" by a nationally recognized rating agency; (iv) commercial paper rated not less than "A-1" or "P-1" or their equivalent by a nationally recognized rating agency; (v) money market funds; (vi) bank certificates of deposit; (vii) Eurodollar funds; and

(viii) such other investments as are permitted by Section 9(c) of the Act and Rule 40 thereunder.

The interest income and investment income earned on loans and investments of surplus funds would be allocated among the participants in the Utility Money Pool in accordance with the proportion each participant's contribution of funds bears to the total amount of funds in the Utility Money Pool.

Each Applicant receiving a loan through the Utility Money Pool would be required to repay the principal amount of such loan, together with all interest accrued thereon, on demand. All loans made through the Utility Money Pool may be prepaid by the borrower without premium or penalty.

Non-Utility Money Pool. The Non-Utility Money Pool will be operated substantially on the same terms and conditions as the Utility Money Pool. See Exhibit N-1.2 for copy of the form of Non-Utility Money Pool Agreement. All contributions to, and borrowings from, the Non-Utility Money Pool are exempt pursuant to the terms of Rule 52 under the Act, except contributions and extensions of credit by LG&E Energy, authorization for which is hereby requested. As in the case of the Utility Money Pool, if surplus funds of LG&E Energy and/or other Non-Utility Money Pool participants ("Non-Utility Internal Funds") make up the funds available in the Non-Utility Money Pool, the interest rate applicable and payable to or by the Non-Utility Money Pool participants for all loans of such Non-Utility Internal Funds outstanding on any day will be the rates for high-grade unsecured 30-day commercial paper sold through dealers by major corporations as quoted in The Wall Street Journal on the preceding business day. If only funds from external borrowings by the Non-Utility Money Pool participants ("Non-Utility External Funds") comprise the funds available in the Non-Utility Money Pool, the interest rate applicable to loans of such Non-Utility External Funds would be equal to the lending company's cost for such Non-Utility External Funds (or, if more than one Non-Utility Money Pool participant had made available Non-Utility External Funds on such day, the applicable interest rate would be a composite rate equal to the weighted average of the cost incurred by the respective Non-Utility Money Pool participants for such funds). In cases where both Non-Utility Internal Funds and Non-Utility External Funds are concurrently borrowed through the Non-Utility Money Pool, the rate applicable to all loans comprised of such "blended" funds would be a composite rate equal to the weighted average of (a) the cost of all Non-Utility Internal Funds contributed by Non-Utility Money Pool participants (as determined as described above) and (b) the cost of all such Non-Utility External Funds (as determined as described above).

The cost of compensating balances, if any, and fees paid to banks to maintain credit lines and accounts by Non-Utility Money Pool participants lending Non-Utility External Funds to the Non-Utility Money Pool would initially be paid by the participant maintaining such line. A portion of such costs -- or all of such costs in the event a Non-Utility Money Pool participant establishes a line of credit solely for purposes of lending any Non-Utility External Funds obtained thereby into the Non-Utility Money Pool -- would be retroactively allocated every month to the companies borrowing such Non-Utility External Funds through the Non-Utility Money Pool in proportion to their respective daily outstanding borrowings of such Non-Utility External Funds.

Operation of the Money Pools and Administrative Matters. Operation of the Utility and Non-Utility Money Pools, including record keeping and coordination of loans, will be handled by LG&E Services under the authority of the appropriate officers of the participating companies. LG&E Services will administer the Utility and Non-Utility Money Pools on an "at cost" basis and will maintain separate records for each money pool. Surplus funds of the Utility Money Pool and the Non-Utility Money Pool may be combined in common short-term investments, but separate records of such funds shall be maintained by LG&E Services as administrator of the pools, and interest thereon shall be separately allocated, on a daily basis, to each money pool in accordance with the proportion that the amount of each money pool's surplus funds bears to the total amount of surplus funds invested from both money pools.

Use of Proceeds. Proceeds from the money pools may be used by each such Applicant (i) for the interim financing of its construction and capital expenditure programs, (ii) for its working capital needs, (iii) for the repayment, redemption or refinancing of its debt and preferred stock, (iv) to meet unexpected contingencies, payment and timing

differences and cash requirements, and (v) to otherwise finance its own business and for other lawful general corporate purposes. LG&E requests authority to borrow up to \$200 million at any one time outstanding from the Utility Money Pool and KU requests authority to borrow up to \$200 million at any one time outstanding from the Utility Money Pool, which amounts are in addition to LG&E's and KU's request to issue short-term debt as set forth herein.

e. Guarantees

i. Guarantees by Powergen and US Holdings

Powergen and US Holdings request authorization to enter into guarantees, obtain letters of credit, extend credit, enter into guarantee-type expense agreements or otherwise provide credit support with respect to the obligations of the U.S. Subsidiary Companies as may be appropriate to enable such system companies to carry on their respective authorized or permitted businesses.^{/47/} Guarantees entered into pursuant to this authorization by Powergen and US Holdings will be subject to a \$2.5 billion limit, based upon the amount at risk outstanding at any one time, which amount is in addition to guarantees by Powergen of securities issued by US Holdings pursuant to the \$6.0 billion financing authorization in Item 3, Section B.2.a above. With respect to any such guarantees, the guarantor will not charge a fee for any such guarantee which would exceed the guarantor's cost of obtaining the liquidity necessary to perform the guarantee (for example, bank line commitment fees or letter of credit fees) for the period of time the guarantee remains outstanding.

ii. Existing Guarantees of the LG&E Energy Group

The LG&E Energy Group has in place certain guarantees and other credit support arrangements, which arrangements will remain in place following the Merger. These guarantees and other credit support arrangements are described in more detail in Appendix B. The Applicants request authorization to retain outstanding the guarantees and other credit support arrangements identified in Part III of Appendix B hereto. With respect to these existing guarantees, the guarantor does not, and will not, charge a fee for any such guarantee.

^{/47/} Powergen also requests the authority to enter into guarantees and other guarantee-type commitments for its FUCO financings, as discussed under Item 3, Section B.2.k below.

arrangements under Section 7(d)(4) of the Act, regarding the reasonableness of fees paid in connection with the issuance of a security, and/or under Section 13 of the Act and the rules thereunder to the extent the financing entity is deemed to provide services to an associate company.

Any amounts issued by such financing entities to third parties pursuant to these authorizations will count against the external financing limit authorized herein for US Holdings or the LG&E Subsidiary Companies, as applicable. However, the underlying intra-system mirror debt and guarantee will not count against any applicable inter-company financing limit or the separate US Holdings or the LG&E Energy Subsidiary Companies guarantee limits. The authorizations sought herein with respect to financing entities is substantially the same as that given to The Southern Company in Holding Co. Act Release No. 27134 (Feb. 9, 2000), New Century Energies, Inc. in Holding Co. Act Release No. 26750 (Aug. 1, 1997) and in Holding Co. Act Release No. 27000 (April 7, 1999) and Conectiv, Inc. in Holding Co. Act Release No. 26833 (Feb. 26, 1998).

i. Receivables Factoring Program

Each of LG&E and KU propose to implement a receivables factoring program, providing for the factoring of accounts receivable ("Receivables"), including outstanding consumer billings, through an existing, or newly-formed, subsidiary of LG&E and KU, respectively (hereinafter referred to as a "Receivables Sub") to one or more unaffiliated third parties (the "Purchasers")./48/

Each Receivable Sub will initially be capitalized by its associate company with a nominal contribution of receivables and/or cash. The Receivables Sub will not seek any outside financing in order to finance the purchase of the Receivables. Each Receivables Sub will purchase Receivables from the related associate company as such Receivables are generated, at a discount based on, among

/48/ See, e.g., Central and South West Corporation, Holding Co. Act Release No. 25995 (March 2, 1994); Allegheny Power System, Inc., Holding Co. Act Release No. 26401 (Oct. 27, 1995); New Century Energies, Inc., Holding Co. Act Release No. 26748 (August 1, 1997); Connecticut Light & Power Company, Holding Co. Act Release No. 26761 (Sept. 29, 1997); Columbia Energy Group, Holding Co. Act Release No. 27604 (August 23, 1999).

other things, the collection history of the associate company.

Each Receivables Sub will enter into purchase and sale agreements with one or more Purchasers under which Receivables Sub may sell (from time to time in its discretion and subject to the satisfaction of certain conditions precedent) fractional, undivided ownership interests expressed as a percentage ("Receivable Interests") in (i) Receivables of its related associate company and (ii) certain related assets, including any security or guaranty for such Receivables, all collections thereon, and related records (the "Related Assets"). The Purchaser(s) of the Receivable Interests are expected to be special purpose corporations, which acquire receivables and other assets and issue commercial paper to finance these acquisitions, and/or financial institutions, and their respective successors or assigns.

Each Receivables Sub will sell Receivable Interests to the Purchasers from time to time. Such Receivable Interests may be funded and repaid on a revolving basis. The ownership interest in Receivables constituting the Receivable Interests will be calculated from time to time according to a formula, which will include reserves based on a multiple of historical losses, customer concentrations that exceed specified levels and other costs associated with the programs. Such formula will also take into account the cost of servicing. The collection fee component will be paid to the servicer of the Receivables.

Primarily because of the reserves that are included in the calculation of the Receivable Interests sold to the Purchasers, the purchase price paid by the Purchasers for the Receivable Interests will be lower than the purchase price paid by the Receivables Sub to the associate company for the Receivables and Related Assets. It is expected that each Receivables Sub will have available sufficient assets to pay the associate company the full purchase price for the Receivables purchased, from the collections on the portion of the Receivables which is not allocated to the Receivables Interest sold to the Purchasers and to the extent that the portion of the Receivable Interests of the Purchases which represents loss reserves exceeds actual loss experience.

However, the funds available at the Receivables Sub at any time may not match the cost of the Receivables and Related Assets available for purchase from the associate

company. In the event that the Receivables and Related Assets originated by an associate company exceeds the amount of cash that the applicable Receivables Sub has available, either the Receivables Sub will pay the purchase price of the Receivables in part in cash and in part evidenced by an inter-company note/FN/ or the associate company will make an additional capital contribution to the Receivables Sub in the form of such excess Receivables and Related Assets. Any excess funds at the Receivables Sub will be used to pay down the inter-company note and/or will be paid to the associate company as a dividend.

While Purchasers will have the right to appoint collection agents after an event of default, initially current collection procedures, which are managed by the associate companies, will be maintained. The billing and collection function of the associate companies will be subcontracted to LG&E Services.

The receivables programs will be structured so as to meet the specific requirements of Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, issued in June 1996 by the Financial Accounting Standards Board ("FAS 125")./49/ Thus, for financial reporting purposes, the transfers of Receivable Interests from associate companies to the Receivables Subs will be treated as sales under generally accepted accounting principles. FAS 125 mandates that any Receivable Interests sold to Purchasers be isolated from the associate companies and their respective creditors, even in bankruptcy or receivership of the associate companies; that the associate companies not maintain effective control over the transferred assets through repurchase and similar arrangements; and that the Receivables Subs and any subsequent Purchasers have the right to pledge or exchange the Receivable Interests.

As transferees, the Receivables Subs and Purchasers will bear the risk of the uncollectibility of Receivables, but will retain limited recourse against the transferors of these assets. Such recourse claims would include liability

/FN/ The inter-company note will bear interest at the 30-day commercial paper rate which appears on Page 1250 of the Dow Jones Telerate Service. The inter-company note will mature 121 days after LG&E or KU, as applicable, ceases to sell Receivables to its respective Receivables Sub. Each of LG&E and KU may elect to terminate its receivables program on one business day's notice.

/49/ The receivables programs will also meet the requirements of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which replaces FAS 125, effective for transfers occurring after March 31, 2001.

for (i) failure to transfer first priority ownership interests in the underlying assets, (ii) transferor's breach of its representations, warranties and covenants, and (iii) certain indemnity obligations. To secure any remedies stemming from such claims, the transferees would be granted security interests in the bank accounts into which payments on the Receivables are to be deposited.

The Applicants believe that the receivables factoring will permit the associate companies in effect to accelerate the receipt of cash collections from accounts receivable and thereby meet short term cash needs. The receivables factoring program will provide the associate companies with additional financial flexibility. Further, the effective cost of the factoring program is expected to be comparable to the associate companies' cost of debt.

The Applicants request Commission authorization for the retention of the Receivables Subs, the acquisition of membership interests of, and the making of the initial equity contribution to, the Receivables Subs, and the payment of dividends or other distributions by the Receivables Subs to the associate companies, to the extent such dividends or other distributions may be considered to be paid out of capital or unearned surplus. The Applicants also request that the Commission authorize the inter-company note between the Receivables Subs and their related associate company. Such inter-company notes will not be counted against the intra-system financing limit requested under Item 3.B.ii.n of this Application.

All other aspects of the transactions described herein are not subject to the Commission's jurisdiction. The sales of Receivables to the Receivables Subs are not sales of a "security" as defined in Section 2(a)(16) of the Act or "utility assets" as defined Section 2(a)(18). Furthermore, any capital contributions to the Receivables Subs in the form of Receivables and Related Assets subsequent to its initial capitalization will be exempt from regulation under Rule 45(b)(4), and the Receivables Subs' sales of Receivable Interests, to the extent such may be considered the issuance of a debt security, are exempt from regulation under Rule 52(b).

j. LG&E Energy Intermediate Subsidiaries

LG&E Energy and its U.S. Non-Utility Subsidiaries seek a general grant of authority to acquire the securities of

EXHIBIT ____ (LK-4)

(13) *Engineering services* includes amounts paid to other companies, firms, or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

(14) *Insurance* includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty injuries to or death of persons other than employees, damages to property of others, defalcation of employees and agents, and the non-performance of contractual obligations of others. It does not include workmen's compensation or similar insurance on employees included as *labor* in item 2, above.

(15) *Law expenditures* includes the general law expenditures incurred in connection with construction and the court and legal costs directly related thereto, other than law expenses included in protection, item 7, and in injuries and damages, item 8.

(16) *Taxes* includes taxes on physical property (including land) during the period of construction and other taxes properly includible in construction costs before the facilities become available for service.

(17) *Allowance for funds used during construction* (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(a) The formula and elements for the computation of the allowance for funds used during construction shall be:

$$A_t = s(S/W) + d(D/D + P + C)(1 - S/W)$$

$$A_e = [1 - S/W][p(P/D + P + C) + c(C/D + P + C)]$$

A_t = Gross allowance for borrowed funds used during construction rate.

A_e = Allowance for other funds used during construction rate.

S = Average short-term debt.

s = Short-term debt interest rate.

D = Long-term debt.

d = Long-term debt interest rate.

P = Preferred stock.

p = Preferred stock cost rate.

C = Common equity.

c = Common equity cost rate.

W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication.

(b) The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in §35.13 of the Commission's Regulations Under the Federal Power Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdictions. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.

NOTE: When a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service, shall be treated as *Electric Plant in Service* and allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in item 17, above.

(18) *Earnings and expenses during construction*. The earnings and expenses during construction shall constitute a component of construction costs.

(a) The earnings shall include revenues received or earned for power produced by generating plants during the construction period and sold or used by the utility. Where such power is sold to

EXHIBIT ____ (LK-5)

Name of Respondent Louisville Gas and Electric Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/30/2000	Year of Report Dec. 31, 1999
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GENERAL DESCRIPTION OF CONSTRUCTION OVERHEAD PROCEDURE

- For each construction overhead explain: (a) the nature and extent of work, etc. the overhead charges are intended to cover, (b) the general procedure for determining the amount capitalized, (c) the method of distribution to construction jobs, (d) whether different rates are applied to different types of construction, (e) basis of differentiation in rates for different types of construction, and (f) whether the overhead is directly or indirectly assigned.
- Show below the computation of allowance for funds used during construction rates, in accordance with the provisions of Electric Plant instructions 3(17) of the U.S. of A.
- Where a net-of-tax rate for borrowed funds is used, show the appropriate tax effect adjustment to the computations below in a manner that clearly indicates the amount of reduction in the gross rate for tax effects.

*See Page 218 Footnote 1.

COMPUTATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATES

For line 1(5), column (d) below, enter the rate granted in the last rate proceeding. If such is not available, use the average rate earned during the preceding three years.

1. Components of Formula (Derived from actual book balances and actual cost rates):

Line No.	Title (a)	Amount (b)	Capitalization Ratio(Percent) (c)	Cost Rate Percentage (d)
1	Average Short-Term Debt & Computation of Allowance text	S		
2	Short-term Interest			s
3	Long-Term Debt	D		d
4	Preferred Stock	P		p
5	Common Equity	C		c
6	Total Capitalization		100%	
7	Average Construction Work in Progress Balance	W		

2. Gross Rate for Borrowed Funds $s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left(1 - \frac{S}{W} \right)$ 0.00

3. Rate for Other Funds $\left[1 - \frac{S}{W} \right] \left[p \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$ 0.00

4. Weighted Average Rate Actually Used for the Year:

- Rate for Borrowed Funds - 0.00
- Rate for Other Funds - 0.00

000883

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year of Report
Louisville Gas and Electric Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	04/30/2000	Dec 31, 1999
FOOTNOTE DATA			

Schedule Page: 218 Line No.: 1 Column: OH exp

GENERAL DESCRIPTION OF CONSTRUCTION OVERHEAD PROCEDURE

LOCAL ENGINEERING

Salaries and expenses of Construction and Services Department, Electric Service and Delivery Department, and Gas Department personnel engaged in construction work, but not assignable to a particular work order, are charged to engineering clearing work orders which have been set up in a clearing account for each respective department. Examples of such charges are as follows: Work in connection with the construction budget; cost of estimating prior to the issuance of specific work orders; scheduling and assigning construction work; preparation of field reports; conferences on construction matters; general supervision of construction projects, etc.

At the end of each month the costs accumulated in these clearing work orders are allocated to specific work orders coming under the direct supervision of the respective departments. The work orders are spread on the basis of total direct cost of work orders.

The labor and expenses of engineers and foremen who are directly assigned to a particular work order are charged to that work order.

SERVICE CONTRACT CHARGES:

These expenses are charged direct to construction and other projects as applicable based on the service performed.

EMPLOYEE BENEFITS:

Vacation, holiday, sick and other off-duty payments by respondent, together with payments by the Company for hospitalization, dental, group life insurance and pension costs, are charged to construction on the basis of the ratio of direct labor charged to construction, subject to fringe benefits, to the total direct labor, subject to employee benefits.

ADMINISTRATIVE AND GENERAL EXPENSES:

The allocation of administrative and general expenses to construction is based on annual study of the estimated time engaged in construction activities by persons and departments charging time to FERC Account 920. The administrative and general salaries and expenses (FERC Account 920-921) applicable to construction is allocated to all construction work orders on the basis of total direct costs.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:

The Company does not capitalize an allowance for funds used during construction.

Name of Respondent Kentucky Utilities Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/27/2000	Year of Report Dec. 31, 1999
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GENERAL DESCRIPTION OF CONSTRUCTION OVERHEAD PROCEDURE

- For each construction overhead explain: (a) the nature and extent of work, etc. the overhead charges are intended to cover, (b) the general procedure for determining the amount capitalized, (c) the method of distribution to construction jobs, (d) whether different rates are applied to different types of construction, (e) basis of differentiation in rates for different types of construction, and (f) whether the overhead is directly or indirectly assigned.
- Show below the computation of allowance for funds used during construction rates, in accordance with the provisions of Electric Plant instructions 3(17) of the U.S. of A.
- Where a net-of-tax rate for borrowed funds is used, show the appropriate tax effect adjustment to the computations below in a manner that clearly indicates the amount of reduction in the gross rate for tax effects.

Engineering and administrative costs which are not attributable to specific projects are charged to designated account numbers and cleared based on construction expenditures charged to the various projects (excluding certain generation construction and information technology related projects). There is no differentiation in rates for different types of construction. All engineering, supervision, and administrative costs applicable to a specific construction project are charged directly to that project.

The amount of overheads charged directly to the designated activity number in 1999 was 11,252,344

COMPUTATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATES

For line 1(5), column (d) below, enter the rate granted in the last rate proceeding. If such is not available, use the average rate earned during the preceding three years.

Components of Formula (Derived from actual book balances and actual cost rates):

Line No.	Title (a)	Amount (b)	Capitalization Ratio(Percent) (c)	Cost Rate Percentage (d)
1	Average Short-Term Debt & Computation of Allowance text	S		
2	Short-term Interest			s
3	Long-Term Debt	D 532,427,170	45.15	d 7.00
4	Preferred Stock	P 39,726,895	3.37	p 5.68
5	Common Equity	C 606,986,078	51.48	c 14.73
6	Total Capitalization	1,179,140,143	100.00 100%	
7	Average Construction Work in Progress Balance	W 89,400,000		

2. Gross Rate for Borrowed Funds $s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left(1 - \frac{S}{W} \right)$ 3.16

3. Rate for Other Funds $\left[1 - \frac{S}{W} \right] \left[p \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$ 7.77

4. Weighted Average Rate Actually Used for the Year:

- a. Rate for Borrowed Funds - 3.16
- b. Rate for Other Funds - 7.77

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EXHIBIT ____ (LK-6)

Louisville Gas and Electric Company

~~First Revision to~~ Original Sheet No. 23-K
P. S. C. of Ky. Electric No. 5

ECR

Environmental Cost Recovery Surcharge

APPLICABLE TO: All electric rate schedules.

The monthly billing amount computed under each of the rate schedules to which this ~~environmental~~ ~~surcharge~~ fuel clause is applicable shall be increased or decreased by the following Environmental Surcharge Factor:

$$\text{Environmental Surcharge Factor} = \frac{E(m)}{R(m)}$$

Where E(m) is the revenue requirement of environmental compliance costs for the current expense month and R(m) is the revenue for the current expense month as set forth below:

- (1) Environmental Compliance Costs E(m) shall be the actual environmental compliance costs as defined in KRS ~~278.289.183(1)~~ for the second preceding month, determined as follows:

$$E(m) = [(RB/12) (ROR + (ROE - DR) / (1 - TR))] + OE - BAS$$

Where:

E(m) = Environmental Surcharge Gross Revenue Requirement

RB = Environmental Compliance Rate Base, as adjusted by Commission Order for eligible Pollution Control Plant in service and Accumulated Depreciation already included in existing rates

ROR = Rate of Return on Environmental Compliance Rate Base, ~~adjusted or "grossed up" for Income Taxes~~

~~DR = Debt Rate~~

~~TR = Composite Federal and State Income Tax Rate~~

OE = Operating Expenses: {Depreciation and Amortization Expense, Property and Other Applicable Taxes, Insurance Expense, Emission Allowance Expense, Surcharge Consultant Fee, and Permit Fees; adjusted by Commission order for the Average Monthly Expense already included in the existing rates}. includes operation and maintenance expense associated with Nox control projects as booked in Account 506105 and Account 512101.

BAS = Net Proceeds from By-Product and Allowance Sales

- (2) Revenue R(m) is the average monthly revenue, including base and fuel adjustment revenues, for the Company for the 12 months ending with the current expense month.
- (3) Current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

000887

Date of Issue: April 13, 1995 October 20, 2000
Canceller: Original Sheet No. 23-K
Issued: April 13, 1995 and
Refiled: February 21, 2000

Issued By

Date Effective: May 1, 1995 2001
Refiled: February 21, 2000

R. M. Hewett, Group Executive
Louisville, Kentucky
KRS 278.289.183(1) in Case No. 04-236

ELECTRIC RATE SCHEDULE

ES

Environmental Surcharge

- (1) Billings computed pursuant to rate schedules to which this Environmental Surcharge is applicable shall be increased or decreased during each month by the following Environmental Surcharge Factor:

$$\text{Environmental Surcharge Factor} = \frac{E(m)}{R(m)}$$

Where "E(m)" is the gross revenue requirement of environmental compliance costs for the current expense month, and "R(m)" is the revenue for the current expense month as set forth below.

- (2) The revenue requirement of environmental compliance costs ("E") shall be the actual recorded costs for the current expense month determined as follows:

$$E(m) = (RB/12) [ROR + (ROR-DR) (TR/(1 - TR))] + PCOE - BAS$$

Where:

E(m) = Environmental Surcharge Gross Revenue Requirement.

RB = Environmental Compliance Rate Base.

ROR = Rate of Return on Environmental Compliance Rate Base.

DR = Pollution Control Bond Rate (Debt Rate).

TR = Composite Federal and State Income Tax Rate.

PCOE = Pollution Control Operating Expenses:

Includes Incremental O&M Expenses, including O & M expense associated with NOx control projects as booked in Account 506105 and Account 512101 (+/-) depreciation and amortization expense, property taxes, insurance expense, emission allowance expense, and surcharge consultant fee.

BAS = Gross Proceeds from By-Products and Allowance Sales

- (3) Revenue "R(m)" is the average monthly revenue, including base and fuel adjustment revenues, for the Company for the 12 months ending with the current expense month.
- (4) Current expense month "m" shall be the second month preceding the month in which the Environmental Surcharge is billed.
- (5) This rate schedule shall apply to Kentucky Utilities Company Electric Rate Schedules RS, FERS, GS, CWH, 33, AES, LP, LCI-TOD, HLF, MP, LMP-TOD, M ST. LT., DEC. ST. LT., P.O.LT., C.O.LT., SEASONAL/TEMPORARY SERVICE RIDER, and WESTVACO.

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